

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 30th day of August, 2010, by and through the Board of Directors (Board) of Hull Federal Savings Bank, Baltimore, Maryland, OTS Docket No. 08581 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its March 29, 2010 examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the March 29, 2010 Report of Examination (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on August 25, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Capital.

1. Effective immediately, the Association shall ensure that adequate levels of capital are maintained to support the Association's activities and operations. Within sixty (60) days, the Association shall submit a written plan to monitor the Association's capital levels and ensure that the capital levels are adequate given the Association's activities and operations, and the volume, type and quality of assets held by the Association (Capital Augmentation Plan). The Capital Augmentation Plan, at a minimum, shall:

- (a) require monthly capital and classified assets reports to be provided to the Board;
- (b) require a capital needs assessment to be conducted prior to the commencement of any new business activities, lines, or products;
- (c) establish the methods, sources, and timeframes by which any identified capital needs will be addressed.

Appraisal Policy.

2. Within sixty (60) days, the Association shall revise its appraisal review policies and procedures (Appraisal Policy) to address all corrective actions set forth in the 2010 ROE relating to appraisals. The Appraisal Policy shall comply with all applicable laws, regulations and regulatory guidance. The Appraisal Policy, at a minimum, shall:

- (a) establish uniform procedures for ordering appraisals;
- (b) ensure the use of certified, licensed appraisers; and
- (c) require systems and procedures to ensure appraisal independence from the lending function.

Loan Modifications.

3. Within sixty (60) days, the Association shall develop a loan modification policy (Loan

Modification Policy) that addresses all corrective actions contained in the 2010 ROE concerning loan modifications. The Loan Modification Policy shall conform to all applicable laws, regulations and regulatory guidance and shall:

- (a) establish eligibility criteria that loans must meet to qualify for a modification;
- (b) identify acceptable modifications, including guidelines and restrictions on such modifications;
- (c) identify the appropriate job positions or committee authorized to approve loan modifications and the procedures for monitoring all approved modified loans;
- (d) require the reporting of all modified loans in accordance with generally accepted accounting principles (GAAP), applicable laws, regulations and regulatory guidance, and the Thrift Financial Report (TFR) instructions;
- (e) require that modified loans be accurately and timely classified in accordance with the Association's asset classification policies; and
- (f) require that a quarterly report be submitted to the Board, beginning with the period ending September 30, 2010, detailing the total number and dollar amount of loan modifications, the number and dollar amount of loans modified since the preceding monthly report, and the types of modifications made.

Financial Reporting.

4. Within ninety (90) days, the Association shall convert its accounting system from a cash accounting system to an accrual accounting system and report delinquent loans on the Thrift Financial Report (TFR) using the accrual method of accounting.

5. Effective immediately, the Association shall ensure that its books and records, financial reports and statements are timely and accurately prepared and filed in compliance with generally

accepted accounting principles and applicable laws, regulations, and regulatory guidance including, but not limited to, 12 C.F.R. Part 562 and the TFR instructions, including accurately reporting classified assets on the TFR.

Allowance for Loan and Lease Losses.

6. Within sixty (60) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate allowance for loan and lease losses (ALLL) level (ALLL Policy) to address all corrective actions set forth in the 2010 ROE relating to ALLL. The ALLL Policy shall comply with generally accepted accounting principles and applicable laws, regulations, and regulatory guidance and shall:

- (a) incorporate the results of all internal loan reviews and classifications and updated property appraisals or valuations;
- (b) address the historical loan loss rates of the Association in compliance with regulatory guidance, which shall be updated quarterly with heavier weighting assigned to rates of the most recent quarters; and
- (c) require charge-offs and/or specific valuation allowances to be taken or established during the same quarter as the Association's classification of a loan.

7. Within thirty (30) days, the Association shall increase its ALLL by the amounts set forth in the 2010 ROE. The Association shall provide the Regional Director with documentation that the required increase in ALLL has been made within ten (10) days after the increase in the ALLL.

Liquidity Management.

8. Within sixty (60) days, the Association shall develop a liquidity and funds management policy (Liquidity Management Policy) that addresses all corrective actions set forth in the 2010

ROE relating to liquidity and funds management and must be acceptable to the Regional Director. The Liquidity Management Policy shall comply with all applicable laws, regulations and regulatory guidance.

9. The Liquidity Management Policy shall include a Contingency Funding Plan, which shall, at a minimum, include:

- (a) alternative funding sources for meeting extraordinary demands or to provide liquidity in the event the sources identified are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining secured lines of credit, recovering charged-off assets, injecting additional equity capital, and the priority of their implementation;
- (b) appropriate lines of credit at correspondent banks, including the Federal Reserve Bank, that would allow the Association to borrow funds to meet depositor demands if the Association's other provisions for liquidity prove to be inadequate; and
- (c) retention of investment securities and other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Association's total assets) to ensure the maintenance of the Association's liquidity position at a level consistent with short-and-long-term liquidity objectives.

10. Within thirty (30) days of receipt of communication from a Federal Home Loan Bank, Federal Reserve Bank, correspondent bank, or government agency with collateralized public unit deposits regarding changes in the Association's borrowing and/or collateral requirements, the Association shall notify the Regional Director of such communication.

Problem Assets.

11. Within sixty (60) days, the Association shall submit a detailed, written plan with specific

strategies, targets and timeframes to reduce¹ the Association's level of problem assets (Problem Asset Reduction Plan) that is acceptable to the Regional Director. The Problem Asset Reduction Plan, at a minimum, shall include:

- (a) quarterly targets for the level of problem assets as a percentage of Tier 1 (Core) capital plus ALLL;
- (b) a description of the methods for reducing the Association's level of problem assets to the established targets; and
- (c) all relevant assumptions and projections.

Loan Underwriting.

12. Within sixty (60) days, the Association shall develop formal loan underwriting policies, procedures, practices, and controls (Loan Underwriting Policy) that address all corrective actions set forth in the 2010 ROE relating to loan underwriting. The Loan Underwriting Policy shall comply with applicable laws, regulations and regulatory guidance and shall, at a minimum:

- (a) establish and require documentation of specific debt service to income ratios for each loan type;
- (b) establish and require documentation of specific loan to value requirements for each loan type;
- (c) establish appropriate controls, systems and procedures to ensure adequate oversight and monitoring of the Association's lending activities, including rehabilitation and construction lending;
- (d) establish procedures, requirements and approvals for loans to be granted as exceptions to the Association's Loan Underwriting Policy;

¹ For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

- (e) require quarterly Board review of all loans granted as exceptions to the Association's Loan Underwriting Policy;
- (f) establish assignment of rent requirements; and
- (g) establish income documentation requirements for all borrowers that demonstrate the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow.

Loans to One Borrower.

- 13. Effective immediately, the Association shall comply with the Loans to One Borrower (LTOB) requirements set forth in 12 C.F.R. § 560.93 and 12 C.F.R. Part 32.
- 14. Within sixty (60) days, the Association shall correct the Loans to One Borrower (LTOB) violations identified in the Association's 2010 ROE.
- 15. Within sixty (60) days, the Association shall revise its existing policies and procedures regarding compliance with the LTOB requirements to address the corrective actions set forth in 2010 ROE and comply with 12 C.F.R. § 560.93 and 12 C.F.R. Part 32.

Internal Asset Review and Classification.

- 16. Within sixty (60) days, the Association shall develop a written internal asset review and classification program (IAR Program) that addresses all corrective actions set forth in the 2010 ROE relating to internal asset review and classification and complies with all applicable laws, regulations and regulatory guidance. At a minimum, the IAR Program shall:
 - (a) ensure the accurate and timely identification, classification, and reporting of the Association's assets, including the designation of loans as special mention or placement of loans on a watch list where a borrower's credit standing has deteriorated;
 - (b) detail the Association's loan grading system and specify parameters for the

identification of problem loans for each type of loan offered by the Association;

- (c) establish specific review and classification standards for any loans where interest, loan fees, late fees, loan costs, or collection costs of problem loans have been capitalized into the loan balance; and
- (d) require quarterly reports to be submitted to the Board detailing the Association's adversely classified, special mention and delinquency ratios.

Concentrations of Credit.

17. Within sixty (60) days, the Association shall develop a written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Credit Concentration Program) that it addresses all corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Credit Concentration Program shall comply with all applicable laws, regulations and regulatory guidance and shall:

- (a) establish comprehensive concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL, and document the appropriateness of such limits based on the Association's risk profile;
- (b) establish stratification categories of the Association's concentrations of credit and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit; and
- (d) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of credit limits.

18. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Board shall review the appropriateness of the Association's concentration limits given current conditions and the Association's compliance with its Credit Concentration Program, including the written action plan to revise the current level of concentrations. The Board's review of the Association's Credit Concentration Program shall be documented in the Board meeting minutes.

Growth.

19. Effective immediately, the Association shall not increase its average total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written notice of non-objection of the Regional Director.

Violations of Law.

20. Within sixty (60) days, the Association shall ensure that all violations of law and/or regulation discussed in the 2010 ROE are corrected and that adequate policies, procedures and systems are established or revised and thereafter implemented to prevent future violations.

Brokered Deposits.

21. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b). The Association shall provide to the Regional Director a copy of any waiver request submitted to the Federal Deposit Insurance Corporation (FDIC).

Directorate and Management Changes.

22. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers² set forth in 12 C.F.R. Part 563, Subpart H.

² The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Employment Contracts and Compensation Arrangements.

23. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer³ or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A, and the Interagency Guidance on Sound Incentive Compensation Policies contained in OTS Chief Executive Officer Memorandum No. 354.

Golden Parachute and Indemnification Payments.

24. Effective immediately, the Association shall not make any golden parachute payment⁴ or prohibited indemnification payment⁵ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Dividends and Other Capital Distributions.

25. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and

³ The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

⁴ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁵ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

Effective Date.

26. This Agreement is effective as of the date contained on the first page of the Agreement (Effective Date).

Duration.

27. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

28. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

29. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

30. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Association:
Board of Directors
c/o Michael C. Baumann, Chairman
1248 Hull Street
Baltimore, Maryland 21230-5239
(410) 625-8791 (Fax)

No Violations Authorized.

31. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

32. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

33. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 30 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

34. The laws of the United States of America shall govern the construction and validity of this Agreement.

35. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the

remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

36. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

37. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

38. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

39. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

40. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

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WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

HULL FEDERAL SAVINGS BANK
Baltimore, Maryland

OFFICE OF THRIFT SUPERVISION

/s/
By: _____
Michael C. Baumann, Chairman

/s/
By: _____
James G. Price
Regional Director, Southeast Region

/s/

Pauline L. Lewis, Director

/s/

Richard D. Abend, Director

/s/

Nancy Baumann, Director

/s/

Ned C. Heller, Director

/s/

Henry Leach, Jr., Director

/s/

Irene C. Schepers, Director